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C O N F I D E N T I A L SECTION 1 OF 3 CARACAS 9518

EO 11652 GDS

TAGS: ENRG EINV VE

SUBJ: OIL NATIONALIZATION - REQUIREMENTS OF THE LAW
THRU DEC 31, 1975

REF: CARACAS A-167, CARACAS 9282

1. BEGIN SUMMARY. THE PURPOSE OF THIS TELEGRAM IS TO SUMMARIZE THE STEPS IN THE VENEZUELAN OIL NATIONALIZATION PROCESS WHICH THE LAW REQUIRES BE COMPLIED WITH PRIOR TO THE TERMINATION OF THE PRIVATE OIL CONCESSIONS ON DEC 31, 1975. SOME ACTIONS HAVE ALREADY BEEN TAKEN, SUCH AS FORMATION OF THE NATIONAL HOLDING COMPANY, PETROVEN, AND THE NAMING OF A SUPERVISORY COMMISSION FOR THE INTERIM PERIOD UNTIL PETROVEN TAKES OVER ON JAN 1, 1976. SOME OTHER REQUIREMENTS ARE IMMINENT, SUCH AS PAYMENT OF WORKER'S BENEFITS BY THE CONCESSIONAIRES BY SEP 13. THE MOST IMPORTATNT REQUIREMENT OF THE LAW AT THIS STAGE IS AN AGREE MENT BETWEEN THE GOV AND THE CONCESSIONAIRES ON COMPENSATION, NEGOTIATIONS ARE IN PROGRESS ON THE QUESTION OF COMPENSA- TION. AGREEMENTS ARE EXPECTED WHICH WILL INCLUDE TECHNICAL ASSISTANCE BY THE COMPANIES TO THE NATIONLAIZED
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INDUSTRY, AND CONTRACTS FOR CONTINUED OIL PURCHASES. THE

SUPERVISORY COMMISSION NAMED IS A STRICTLY TECHNICAL BODY;
EVEN THE NOMINEES OF THE NATIONAL CONGRESS ARE TECHNICAL
RATHER THAN POLITICAL. END SUMMARY.

2. NATIONAL OIL COMPANIES - CREATE THE COMPANIES DEEMED
NECESSARY FOR THE REGULAR AND EFFICIENT DEVELOPMENT OF
ACTIVITIES. (ARTICLE 6). GRANT TO ONE OF THE COMPANIES
THE FUNCTIONS OF COORDINATION, SUPERVISION AND CONTROL OF
THE ACTIVITIES OF THE OTHERS. (ARTICLE 6).

3. THE NATIONAL HOLDING COMPANY, PETROLEOS DE VENEZUELA
(PTEROVEN), WAS ESTABLISHED BY PRESIDENTIAL DECREE 1123 OF
AUG 30, 1975. THE DECREE WAS PUBLISHED IN THE OFFICIAL
GAZETTE OF THE SAME DATE, EXTRAORDINARY ISSUE 1770. THE
ESTABLISHMENT OF PETROVEN WAS REPORTED BY THE EMBASSY IN
CARACAS 9282. VENEZUELAN PETROLEUM COMPANY (CVP), THE
FORMER AUTONOMOUS STATE OIL COMPANY, WAS CONVERTED TO A
COMMERCIAL FIRM BY PRESIDENTIAL DECREE OF SEP 1, 1975
(ARTICLE 6). CVP WILL HAVE A NEW PRESIDENT AND BOARD OF
DIRECTORS WHO WILL BE PROFESSIONALLY RATHER THAN POLITICALLY
ORIENTED.

4. SUPERVISORY COMMISSION- CREATE SUPERVISORY COMMISSION
TO REPRESENT THE STATE IN ALL ACTIVITIES OF THE
CONCESSIONAIRES FOR THE PURPOSES OF VERIFICATION OF PRO-
DUCTION AND TAX OBLIGATIONS, ADMINISTRATION AND COMMERCIAL
OPERATIONS, UNTIL SUCH TIME AS THE STATE COMPANIES FORESEEN
IN LAW TAKE OVER THE MANAGEMENT OF THE NATIONALIZED INDUSTRY.
COMMISSION TO BE ESTABLISHED WITHIN FIFTEEN DAYS AFTER THE
REVERSION LAW PROMULGATED (ARTICLES 9, 10 AND 11).

5. THE SUPERVISORY COMMISSION WAS ENVISIONED BY THE NATIONAL
REVERSION COMMISSION, WHICH DRAFTED THE ORIGINAL BILL, AS
GIVING THE NATIONAL CONGRESS A ROLE IN OVERSEEING THE OIL
INDUSTRY DURING THE PERIOD OF CARRYING OUT THE NATIONALIZA-
TION PROCESS. PRESUMABLY, THE CONGRESSIONAL MEMBERS OF
THE COMMISSION WOULD ACT AS WATCHDOGS TO PROTECT THE RIGHTS
OF THE STATE.

6. THE GOV, IN ITS REVIEW OF THE REVERSION COMMISSION
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DRAFT BILL, REDUCED THE NUMBER OF CONGRESSIONAL NOMINEES
ON THE SUPERVISORY COMMISSION FROM FOUR TO TWO, BUT OTHER-
WISE DECIDED TO RETAIN THE SUPERVISORY COMMISSION FUNCTION
IN THE GOV VERSION OF THE BILL THAT WAS PRESENTED TO CONGRESS
AND THAT EVENTUALLY BECAME LAW. PRACTICALLY EVERYBODY CON-
NECTED WITH THE VENEZUELAN OIL INDUSTRY CONSIDERS THE
SUPERVISORY COMMISSION TO BE UNNECESSARY. THE GOV, FOR
OBVIOUS REASONS, HOWEVER, FELT IT COULD NOT ASK CONGRESS

TO APPROVE A BILL THAT SPECIFICALLY ELIMINATED ITS PARTICIPATION IN THE NATIONALIZATION PROCESS. THE ADMINISTRATION WAS ALSO AWARE THAT THE COMMISSION WOULD HAVE ONLY A SHORT LIFESPAN OF A FEW MONTHS, THAT THE CONGRESSIONAL NOMINEES OF THE COMMISSION WOULD BE HAND-PICKED BY THE AD PARTY, AND THAT THE MAJORITY OF THE COMMISSION MEMBERS WOULD BE DESIGNATED BY THE MINES MINISTRY OR ACTUALLY BE MINISTRY PERSONNEL.

7. ON SEP 8, THE NINE MEMBERS OF THE SUPERVISORY COMMISSION WERE NAMED AND THE COMPOSITION OF THE GROUP TOOK THE FORM EXPECTED - THREE OFFICE DIRECTORS OF THE MINES MINISTRY, TOGETHER WITH TWO PROMINENT FORMER MINES MINISTRY OFFICIALS, PLUS TWO REPRESENTATIVES OF THE VENEZUELAN LABOR CONFEDERATION (CTV) AND TWO CONGRESSIONAL NOMINEES WITH OIL INDUSTRY EXPERTISE. THUS, THE SUPERVISORY COMMISSION IS WELL MESHED INTO THE VENEZUELAN CADRE INVOLVED IN OIL NATIONALIZATION. IT WILL NOT BE AT CROSS PURPOSES WITH DECISIONS TAKEN BY THE ADMINISTRATION. IT PRESERVES THE STRUCTURE OF THE BODY SOUGHT BY THE REVERSION COMMISSION, BUT CLEARLY NOT THE INTENT OF CONGRESSIONAL OVERSIGHT. MEMBERS OF THE SUPERVISORY COMMISSION ARE:

JOSE MARTORANO BATTISTI - LONG RECORD OF GOVT SERVICE. RECENTLY HEADED VENEZUELAN STATE OIL RESEARCH AND DEVELOPMENT AGENCY, FONINVES. GOVT OBSERVER FOR MEN GRANDE CO. ALTERNATE DIRECTOR OF PETROVEN.

LUIS PLAZ BRUZUAL- EQUALLY LONG RECORD OF GOVT SERVICE. RETIRED AS DIRECTOR OF HYDROCARBONS FROM MINISTRY OF MINES. GOVT OBSERVER FOR SHELL OIL CO. ALTERNATE DIRECTOR OF PETROVEN.

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AREVALO GUZMAN REYES - DIRECTOR OF HYDROCARBONS IN MINISTRY OF MINES AND HYDROCARBONS, ONE OF THE MOST IMPORTANT AND INFLUENTIAL POSITIONS IN PRESENT GOV OIL STRUCTURE. MEMBER OF COMMITTEE NEGOTIATING TECHNICAL ASSISTANCE AGREEMENTS WITH OIL INDUSTRY FOR POST-NATIONALIZATION PERIOD.

FRANCISCO GUTIERREZ - DIRECTOR OF THE ORINOCO TAR BELT OFFICE IN MINISTRY OF MINES AND HYDROCARBONS. RESPONSIBLE FOR GOV DEVELOPMENT AND SURVEY PROGRAMS IN THE ORINOCO ZONE. CURRENTLY HEADING VENEZUELAN DELEGATION TO OLADE MEETING IN MEXICO CITY.

HUMBERTO CALDERON BERTI- DIRECTOR OF THE REVERSION OFFICE IN THE MINISTRY OF MINES AND HYDROCARBONS. A HOLDOVER FROM THE PREVIOUS CALDERA ADMINISTRATION AND IDENTIFIED WITH THE OPPOSITION COPEI

PARTY, BUT RESPECTED AS ABLE TECHNICIAN IN THE MINISTRY.

JUAN JONES PARRA - CONGRESSIONAL NOMINEE. DIRECTOR OF PETROLEUM INSTITUTE AT SIMON BOLIVAR UNIVERSITY. SELF-PROFESSED EXPERT ON SUBJECT OF HEAVY CRUDE OIL. FORMER MOBIL OIL COMPANY PRODUCTION MANAGER.

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RICARDO CORRIE - CONGRESSIONAL NOMINEE. PRESIDENT, VENEZUELAN SOCIETY OF PETROLEUM ENGINEERS. EMPLOYED AS PETROLEUM ENGINEER BY SHELL OIL COMPANY. HE WILL TAKE LEAVE OF ABSENCE TO SERVE ON COMMISSION.

ISMAIL ORDAZ - CTV REPRESENTATIVE. FOUNDER AND FORMER VICE PRESIDENT OF THE PETROLEUM WORKERS UNION (FEDEPTROL). LEFT AD PARTY IN 1967 AND HEADS MEP PARTY IN ZULIA STATE.

ANTONIO MACHADO - CTV REPRESENTATIVE. PRESIDENT OF SMALL URD PARTY -CONTROLLED PARALLEL PETROLEUM WORKERS UNION (FETRAHYDRACARBUIROS).

8. COMPENSATION OFFER - GOV MUST MAKE COMPENSATION OFFER TO OIL CONCESSIONAIRES BY OCTOBER 13, 1975. (ARTICLE 12). THE LAW ESTABLISHES THE CRITERIA FOR DETERMINING COMPENSA-

TION IN ARTICLE 15 - NET BOOK VALUE LESS ACCUMULATED DEPRECIATION AND AMORTIZATION, AND LESS CERTAIN OTHER DEDUCTIONS.I.E., AMOUNTS OWED FOR WORKER'S BENEFITS, DEBTS OWED TO THE GOV, THE VALUE OF PETROLEUM EXTRACTED UNDER UNITIZATION AGREEMENTS WITH THE VENEZUELAN PETROLEUM CORPORATION WHICH IS DETERMINED TO BE IN EXCESS OF THE CONCESSIONAIRES' SHARE, AND THE VALUE OF PROPERTIES
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OWNED BY CONCESSIONAIRES WHICH THE MINES MINISTRY DETERMINES IS SUBJECT TO THE 1971 REVERSION LAW.

9. AN INTERVIEW WITH THE MINES MINISTRY DIRECTOR OF REVERSION WAS PUBLISHED SEPTEMBER 6 IN WHICH HE SET THE MAXIMUM COMPENESATION FOR THE CONCESSIONAIRES AT BS 5.479 BILLION. THIS SUM WOULD BE SUBJECT TO THE DEDUCTIONS MENTIONED PREVIOUSLY. THE REVERSION DIRECTOR ALSO SPECIFIED THE COMPENSATION AMOUNT THAT HAS BEEN CALCULATED FOR FIVE CONCESSIONAIRES; CREOLE PETROLEUM (EXXON) - BS 2.474 BILLION; SHELL OIL - BS 1,368 BILLION; MENE GRANDE (GULF) BS 422 MILLION; INTERNATIONAL PETROLEUM (99.95 PERCENT EXXON-OWNED) - BS 220 MILLION; AND THE TEXAS GROUP (TEXACO) - BS 230 MILLION. MINES MINISTER HERNANDEZ TOLD REPORTERS ON SEPTEMBER 10 THAT TOTAL COMPENSATION WOULD BE SLIGHTLY OVER BS 4 BILLION. THIS, LOWER FIGURE, HE SAID, REFLECTS THE 1975 DEPRECIATION OF CONCESSIONAIRES ASSETS.

10. A CONTROVERSY HAS ARISEN OVER THE GOV INTERPRETATION OF COMPENSATION WHICH EXCLUDES UNAMORTIZED INVESTMENTS. OIL COMPANIES WHICH OBTAINED CONCESSIONS DURING THE MID-1950 PERIOD, PRIMARILY IN THE CENTRAL LAKE MARACAIBO REGION, ARE MOST AFFECTED BY THIS DECISION. SINCE DEPRECIATION IS CALCULATED ON UNITS OF PRODUCTION, SOME COMPANIES FEEL THEY ARE BEING PENALIZED BECAUSE THEY HAVE NOT HAD SUFFICIENT TIME TO DEPRECIATE THEIR INITIAL LARGE INVESTMENTS. PHILLIPS PETROLEUM BELIEVES THE EXPLORATION COSTS OF AREAS WHICH DID NOT SHOW DEVELOPMENT POTENTIAL, AND WHICH WERE RETURNED TO THE VENEZUELAN GOVERNMENT, SHOULD BE INCLUDED IN THE COMPENSATION CALCULATION. SUN OIL COMPANY, AND OTHER FIRMS WHICH HAVE PRODUCING CONCESSIONS THAT DO NOT EXPIRE IN SOME CASES UNTIL 1996, INDICATE THAT THEY HAVE NOT HAD SUFFICIENT TIME TO DEVELOP THEIR AREAS, FOR WHICH THEY PAID LARGE PREMIUMS,AND THEREFORE THESE INVESTMENTS SHOULD BE COMPENSATED.

11. THE MINES MINISTRY DIRECTOR OF HYDROCARBONS, IN A PRESS INTERVIEW PUBLISHED SEPTEMBER 4, STATED THAT OIL COMPANIES PAID MORE THAN BS 2 BILLION TO ACQUIRE CONCESSIONS IN 1957. MUCH OF THIS AREA HAS NOT BEEN PUT INTO PRODUCTION AND STILL HAS A SIGNIFICANT VALUE, HE SAID. SINCE THE OIL COMPANIES WERE OBLIGATED TO DEVELOP AND PUT INTO PRODUCTION THESE AREAS IN ORDER TO AMORTIZE THEIR INVESTMENT, THE HYDROCARBONS DIRECTOR STATED THAT THE GOV WILL NOT RECOGNIZE SUCH NON-PRODUCING AREAS IN
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COMPENSATION CALCULATIONS.

12. PRIVATELY, THE OIL COMPANIES ARE NOT OPTIMISTIC ABOUT HAVING THEIR CLAIMS RECOGNIZED. SINCE THE LARGER CONCESSIONAIRES (CREOLE AND SHELL) ARE NOT AFFECTED TO THE SAME EXTENT (THEIR CONCESSIONS ARE OLDER AND MORE FULLY DEVELOPED, AND THEY DID NOT PAY SUCH LARGE PREMIUMS TO ACQUIRE THEM), THE GOV IS IN A STRONGER POSITION TO STICK TO ITS INTERPRETATION OF THE COMPENSATION BASE.

13. RESPONSE TO COMPENSATION OFFER - THE CONCESSIONAIRES WILL HAVE FIFTEEN DAYS TO RESPOND TO THE FORMAL COMPENSATION OFFER, OR BY OCTOBER 28, IF THE OFFER IS PRESENTED ON SCHEDULE. (ARTICLE 12). THE OIL COMPANIES WILL ALREADY KNOW THE AMOUNTS OF COMPENSATION THEY CAN EXPECT. THEREFORE, THEIR ACCEPTANCE OF THE OFFER WILL BE CONDITIONED PRIMARILY ON OTHER FACTORS. THESE FACTORS INCLUDE:(1) THE "PACKAGE" AGREEMENTS UNDER WHICH THEY WOULD CONTINUE TO PROVIDE TECHNICAL ASSISTANCE TO THE NATIONALIZED INDUSTRY;
2) AS PART OF THE PACKAGE - THE TERMS OF CONTRACTS FOR CONTINUED PURCHASE OF VENEZUELAN OIL FROM PETROVEN;
3) THE MANNER IN WHICH COMPENSATION WILL BE PAID; AND
4) THEIR INDIVIDUAL INTEREST IN A FUTURE RELATIONSHIP IN VENEZUELA (WHETHER SOME OF THE COMPANIES WILL WANT TO REMAIN HERE AND/OR WHETHER THE GOV WILL WANT THEM TO STAY). THIS LATTER FACTOR APPLIES MAINLY TO THE MARGINAL PRODUCERS.

14. SITUATION WHERE AGREEMENT CANNOT BE REACHED - IN A CASE WHERE A CONCESSIONAIRE DOES NOT AGREE TO THE COMPENSATION OFFER, THE GOV HAS 30 DAYS TO SO INFORM THE SOLICITOR GENERAL, OR BY NOVEMBER 27. THE SOLICITOR GENERAL THEN HAS 30 DAYS, OR UNTIL DECEMBER 27, WITHIN WHICH HE MUST FILE A SUIT WITH THE SUPREME COURT FOR EXPROPRIATION OF THE SUBJECT CONCESSION. (ARTICLE 13). THUS, THE GOV HAS A SEVENTY-FIVE DAY "SAFETY VALUE" TIME PERIOD FROM THE PRESENTATION OF THE FORMAL COMPENSATION OFFER UNTIL BEGINNING MANDATORY EXPROPRIATION PROCEEDINGS TO ATTEMPT TO REACH A SATISFACTORY AGREEMENT WITH ANY OIL COMPANY THAT REJECTS THE OFFER. CONCEIVABLY, THE EXTRA TIME PERIOD COULD ALSO BE UTILIZED TO COMPLETE THE PRESENT NEGOTIATIONS BETWEEN THE GOV AND THE CONCESSIONAIRES IF, FOR ANY REASON, THEY CANNOT BE COMPLETED IN THE STIPULATED 45-DAY

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PERIOD. THE MINES MINISTER, VALENTIN HERNANDEZ, AND SEVERAL OF HIS KEY ASSISTANTS, ARE SCHEDULED TO ATTEND THE OPEC MINISTERIAL

MEETING, WHICH WILL TAKE PLACE DURING THE ABOVE MENTIONED
45-DAY PERIOD. SINCE HERNANDEZ IS HEAD OF THE GOV NEGOTIATING
TEAM, DISCUSSIONS WITH THE OIL COMPANIES MAY HAVE TO BE
SUSPENDED WHILE THE OPEC MEETING IS IN SESSION.

15. PAYMENTS TO THE GUARANTY FUND - ASSUMING THAT THE OIL
COMPANIES ACCEPT THE COMPENSATION OFFERS, THEY MUST DEPOSIT TEN
PERCENT OF THEIR GROSS ACCUMULATED INVESTMENT INTO THE GUARANTY
FUND. (ARTICLE 19). THE GOV ESTIMATES THIS SUM WILL TOTAL
BS 2.5 BILLION. TECHNICALLY, PAYMENTS TO THE FUND ARE DUE

SIXTY DAYS AFTER PROMULGATION OF THE LAW (OCTOBER 28), OR ON
THE SAME DAY THAT OIL CONCESSIONAIRES MUST REPLY TO THE COMPENSATION
OFFER. HOWEVER, ARTICLE 19 ALSO STATES THAT CONCESSIONAIRES
ACCEPTING THE COMPENSATION OFFER MAY UTILIZE GOVERNMENT COMPENSATION
BONDS TO FULFILL THE GUARANTY FUND OBLIGATION, AND MAY MAKE THE
NECESSARY DEPOSITS AT THE MOMENT THEY RECEIVE THE BONDS.

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16. THUS, IN THE NEGOTIATIONS NOW IN PROGRESS, IT IS CON-
TEMPLATED THAT COMPENSATION BONDS EQUIVALENT TO THE REQUIRED
TEN PERCENT WILL BE PLACED IN THE GUARANTY FUND WHERE THEY REMAIN

FOR A PERIOD OF THREE YEARS. THE MINES MINISTRY REVERSION DIRECTOR STATED IN HIS PRESS INTERVIEW OF SEPTEMBER 6 THAT THE GUARANTY FUND WOULD SERVE TWO PURPOSES: 1) DEDUCTIONS WILL BE MADE FROM THE FUND TO COVER ANY DISCREPANCIES IN THE PHYSICAL ASSETS OF THE FORMER CONCESSIONAIRES AS SHOWN IN THEIR BOOKS, OR TO CARRY OUT ANY NECESSARY MAINTENANCE. ARTICLE 20 ALLOWS THE GOV A PERIOD OF THREE YEARS TO CARRY OUT THE PHYSICAL INVENTORY OF ASSETS; 2) THE FUND MAY ALSO BE DRAWN ON TO FINANCE THE RESTORATION OF INACTIVE OIL FIELDS WHERE THE GOV DEEMS IT WOULD BE ECONOMICALLY FEASIBLE TO DO SO. THE REVERSION DIRECTOR ESTIMATES THAT SOME THIRTY PRODUCTION FACILITIES MIGHT QUALIFY FOR RESTORATION.

17. WORKERS' BENEFITS - CONCESSIONAIRES ARE REQUIRED TO DEPOSIT THE TOTAL AMOUNT OF BENEFITS DUE TO THE WORKERS INTO THE CENTRAL BANK BY SEPTEMBER 13. (ARTICLE 23). EXISTING TRUST FUNDS ARE EXEMPT FROM THIS REQUIREMENT. THE CONCESSIONAIRES ANTICIPATED THIS REQUIREMENT, AND HAD ALREADY COMPLIED TO A LARGE EXTENT THROUGH TRUST FUNDS ESTABLISHED WITH THEIR OWN EMPLOYEE ORGAN-
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IZATIONS. THE PROBABLY ORDER OF MAGNITUDE OF WORKERS BENEFITS IS BS 2 BILLION. SHELL OIL COMPANY, FOR EXAMPLE, REPRESENTS ABOUT 25 PERCENT OF THE INDUSTRY. IT ESTIMATES ITS OBLIGATION TO BE ABOUT BS 500 MILLION. OF THIS, BS 300 MILLION IS ALREADY DEPOSITED IN TRUST FUNDS. THE COMPANY EXPECTS TO DEPOSIT ANOTHER BS 100 MILLION INTO DESIGNATED TRUST FUNDS, AND THE FINAL BS 100 MILLION INTO THE CENTRAL BANK.

18. TERMINATION OF CONCESSIONS - THIS WILL TAKE EFFECT DECEMBER 31, 1975. (ARTICLE 1). CARACAS 9282 REPORTED THAT, AFTER THE COMPANIES REACH COMPENSATION AGREEMENTS WITH THE GOV, THEY WILL FORM NEW VENEZUELAN COMPANIES AND TRANSFER THEIR ASSETS TO THEM. PETROVEN WILL THEN PURCHASE ALL OF THE STOCK OF THE NEW COMPANIES ON BEHALF OF THE VENEZUELAN GOVERNMENT ON DECEMBER 31.

19. STATUS OF FORMER CONCESSIONAIRES AND PAYMENT OF COMPENSATION - THE NEGOTIATIONS NOW IN PROGRESS BETWEEN THE GOV AND THE OIL CONCESSIONAIRES ARE EXPECTED TO RESULT IN THE PREVIOUSLY MENTIONED "PACKAGE" AGREEMENTS. PRESENT FOREIGN MANAGERS, IN SOME CASES, WILL REMAIN IN VENEZUELA AS REPRESENTATIVES OF THE OIL COMPANIES WHO ARE LOSING THEIR CONCESSIONS. FOREIGN TECHNICANS NOW WORKING FOR THE CONCESSIONAIRES HERE, ESTIMATED BY THE MINES MINISTRY TO NUMBER APPROXIMATELY 520, WILL IN THE MAJORITY OF CASES REMAIN AS TECHNICAL ADVISERS TO THE NATIONALIZED INDUSTRY. A TECHNICAL SERVICE FEE WILL BE PAID, UNDER THE TERMS OF THE PACKAGE AGREEMENTS, TO THE OIL CONCESSIONAIRES, WHO WILL THEN CONTINUE TO PAY THE SALARIES OF THE FOREIGN TECHNICIANS. THE TECHNICIANS WILL, IN EFFECT, BE ON "LOAN" TO PETROVEN.

20. IT IS ENVISIONED THAT COMPENSATION BONDS, OTHER THAN THOSE PLACED IN THE GUARANTY FUND, WILL BE RETIRED AS PART OF THE OIL SALES CONTRACTS. THE FORMER CONCESSIONAIRES WHO ENTER INTO OIL PURCHASE AGREEMENTS WITH PETROVEN WILL BE PERMITTED TO DEDUCT A PERCENTAGE, PROBABLY 2.5 PERCENT OF THE ANNUAL CONTRACTED VALUE, FROM PAYMENTS DUE TO PETROVEN FOR THE CONTRACTED OIL. (ARTICLE 16). AFTER THREE YEARS, AND AFTER THE GOV HAS MADE WHATEVER DEDUCTIONS IT FEELS ARE WARRANTED, THE COMPENSATION BONDS IN THE GUARANTY FUND WILL ALSO BECOME ELIGIBLE FOR REDEMPTION.
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